

May 30, 2000

MEMORANDUM

TO: Director, USAID/Jordan, Lewis Lucke

FROM: Acting RIG/Cairo, Thomas C. Asmus

SUBJECT: Audit of USAID/Jordan's Implementation of the Federal Managers' Financial Integrity Act

This is our final report on the subject audit. We reviewed your comments to the draft report and included them as Appendix II. The report contains one recommendation (page 7) which is closed upon issuance of this report.

I appreciate the cooperation and courtesies extended to my staff during the audit.

Background

The Federal Managers' Financial Integrity Act of 1982 (FMFIA) establishes requirements with regard to management accountability and controls. This law encompasses program, operational, and administrative areas as well as accounting and financial management. Under the authority of the FMFIA, the Office of Management and Budget (OMB) issued Circular No. A-123¹ to provide detailed guidance for assigning federal managers the responsibility for designing management structures that help ensure accountability and include appropriate cost-effective controls.

In addition, the FMFIA requires the U.S. General Accounting Office (GAO) to issue standards for internal control in the government. Fundamentally, managers use a variety of controls to provide reasonable assurance that an agency can meet its objectives. Control activities are the policies, procedures, techniques, and mechanisms that enforce management directives. They help ensure that actions are taken to address the risk factors that jeopardize an organization's achievement of its goals. Certain categories of control activities are common to all agencies and include, among other things, appropriate documentation, accurate and timely recording of transactions and events, and the proper execution of transactions and events.

OMB Circular No. A-123 states that management controls are the organization, policies and procedures used to reasonably ensure that (1) programs achieve their intended results; (2)

¹OMB Circular No. A-123, Management Accountability and Control

resources are used consistent with agency mission; (3) programs and resources are protected from waste, fraud, and mismanagement; (4) laws and regulations are followed; and (5) reliable and timely information is obtained, maintained, reported and used for decision making. The Circular provides guidance to federal managers on improving the accountability and effectiveness of federal programs and operations by establishing, assessing, correcting, and reporting on management controls.

USAID has issued Automated Directives System (ADS) Chapter 596, Management Accountability and Control, which provides the Agency's policy and procedures for establishing, assessing, correcting, and reporting on management controls under FMFIA and OMB Circular No. A-123. Additional guidance for assessing the adequacy of management controls and annual instructions for reporting the status of management controls is provided by USAID's Bureau for Management's Office of Management Planning and Innovation (M/MPI).

Audit Objectives

The Office of the Regional Inspector General, Cairo (RIG/Cairo) audited USAID/Jordan as part of a worldwide audit to analyze the extent to which USAID has established a management process that satisfies the requirements of the Federal Managers' Financial Integrity Act. The specific audit objectives were:

- **Has USAID/Jordan established management controls and periodically assessed these controls to identify deficiencies in accordance with the Federal Managers' Financial Integrity Act and related regulations and guidance?**
- **Has USAID/Jordan reported material weaknesses in accordance with the Federal Managers' Financial Integrity Act and related regulations and guidance?**
- **Has USAID/Jordan taken timely and effective action to correct identified management control deficiencies in accordance with the Federal Managers' Financial Integrity Act and related regulations and guidance?**

Appendix I includes a discussion of the scope and methodology for this audit.

Audit Findings

Has USAID/Jordan established management controls and periodically assessed these controls to identify deficiencies in accordance with the Federal Managers' Financial Integrity Act and related regulations and guidance?

USAID/Jordan has established management controls and periodically assessed these controls to identify deficiencies in accordance with the FMFIA and related regulations and guidance.

As stated above, the FMFIA and OMB Circular No. A-123 provide guidance for use by agencies and managers to, among other things, establish management controls and to periodically assess the adequacy of those controls. Further, ADS Chapter 596 instructs missions and cognizant managers to: (1) appoint a Management Control Official (MCO) to oversee and coordinate management accountability and control issues within the mission; (2) ensure that appropriate and cost-effective management controls are established; (3) continuously perform management control assessments in accordance with instructions issued by USAID's Bureau for Management's Office of Management Planning and Innovation (M/MPI); and (4) establish a Management Control Review Committee (MCRC) to assess and monitor deficiencies in management controls.

Moreover, M/MPI provides annual guidance to missions for conducting FMFIA reviews. In conducting reviews, missions are instructed to use existing sources of information to supplement management's judgment in assessing the adequacy of management controls, including:

- 1) management knowledge gained from daily operation of USAID programs and systems,
- 2) management reviews,
- 3) Office of Inspector General and General Accounting Office reports, and
- 4) program evaluations.

Missions are also instructed to review the ADS in determining mission compliance with USAID policies and essential procedures. M/MPI provides a Management Control Checklist to assist in conducting the reviews. The Fiscal Year 1999 checklist contained 189 control techniques extracted from the ADS.

In implementing the above criteria, USAID/Jordan appointed the Controller as the Management Control Officer (MCO) to oversee and coordinate management accountability and control issues within the Mission. The Mission had also established an MCRC—comprised of the Regional Legal Advisor, Regional Contracting Officer, Executive Officer, Program Officer, and Controller and headed by the Mission Director—to provide oversight of its management control

process.

The Mission generally followed the policies and procedures as stated in the ADS. When deemed necessary, the Mission issued Mission Orders and other Mission-specific guidance to complement or further clarify the ADS and to establish any needed policies, procedures and systems. For example, in June 1999 a Mission Order was issued to re-delineate operational and program responsibilities among mission officials. It was written in a revised format to resemble the standard format used in the ADS. Another Mission Order established the accountability requirements governing trust fund management when disbursement responsibility was transferred from the United States Disbursing Officer to the USAID Controller.

In completing the Fiscal Year 1999 FMFIA Assessment, USAID/Jordan took an organized and conscientious approach. Acting in its lead role, the Controller's office issued a memo to the responsible MCRC members that provided guidance in performing the review. The memo included a timetable for conducting the review and identified the officers responsible for completing the various parts of M/MPI's checklist containing the 189 control techniques. The following table highlights the areas addressed by these control techniques.

<i>CONTROL TECHNIQUES</i>	
<i>CATEGORY</i>	<i>NUMBER</i>
<i>Program Assistance</i>	<i>42</i>
<i>Organization Management</i>	<i>7</i>

<i>CONTROL TECHNIQUES</i>	
<i>Administrative Management</i>	<i>38</i>
<i>Financial Management</i>	<i>52</i>
<i>Acquisition and Assistance</i>	<i>42</i>
<i>Audit Management and Resolution</i>	<i>5</i>
<i>Other</i>	<i>3</i>
<i>TOTAL</i>	<i>189</i>

Upon receipt of the checklist, each responsible MCRC member determined whether the controls in their assigned areas were satisfactory. On September 8, 1999, an FMFIA meeting, chaired by the Controller and attended by MCRC members and their key staff involved in the FMFIA review, was held. This meeting helped to ensure that the actions needed to meet their FMFIA certification deadline were on track. At this meeting, the members also concluded that, as was the case for the 1998 FMFIA review, there were no material weaknesses identified in the 1999 review. At this meeting, internal control deficiencies that needed correction were also identified.

A consolidated checklist with all responses from the MCRC members was then circulated by the Controller's office to the MCRC members and to the non-MCRC member heads of the Mission's technical offices for final edit and comments. After incorporating final edits and comments, the Controller, on September 30, 1999, then issued a memo to the Mission Director describing the FMFIA review processes the Mission undertook, summarizing the results of the review, and requesting the Mission Director's certification/signature.

Has USAID/Jordan reported material weaknesses in accordance with the Federal Managers' Financial Integrity Act and related regulations and guidance?

USAID/Jordan performed an evaluation of its system of internal accounting and administrative controls for Fiscal Year 1999 in accordance with the Federal Managers' Financial Integrity Act and related regulations and guidance. It did not identify any material weaknesses or deficiencies that needed to be reported to the next level of management.

OMB Circular No. A-123 requires that a management control deficiency be reported if it is or should be of interest to the next level of management. This allows the chain of command structure to determine the relative importance of each deficiency. Along these lines, USAID's ADS Chapter 596 and M/MPI's Fiscal Year 1999 FMFIA instructions require that missions provide an FMFIA compliance certification to the cognizant Assistant Administrator,² with a copy to M/MPI, on the overall adequacy and effectiveness of management controls. This certification should identify management control deficiencies determined to be material weaknesses,³ including those that are not correctable within the mission's authority and resources.

USAID/Jordan submitted a Fiscal Year 1999 FMFIA certification to the Assistant Administrator for the Asia and Near East Bureau (AA/ANE) that did not include any material weaknesses.

Has USAID/Jordan taken timely and effective action to correct identified management control deficiencies in accordance with the Federal Managers' Financial Integrity Act and related regulations and guidance?

Although USAID/Jordan took corrective actions on most of its deficiencies identified in its 1998 and 1999 FMFIA reviews, it needs to improve and formalize its follow-up system to ensure timely and effective action on all deficiencies.

Recommendation No. 1: We recommend that USAID/Jordan formalize its system for correcting management control deficiencies and amend its Management Control and Review Committee Mission Order to require the Committee to (a) approve written corrective action plans, (b) review the status of outstanding deficiencies at least semi-annually, (c) document all corrective actions taken, and (d) document its review and approval of final corrective actions and its closure decisions.

OMB Circular No. A-123 states that management control assessments will be performed to identify deficiencies in agency programs and operations and that corrective action plans will be

²For USAID/Jordan, the cognizant Assistant Administrator is the Assistant Administrator for the Asia and Near East Bureau (AA/ANE).

³A material weakness would (1) significantly impair the organization's ability to achieve its objectives; (2) result in the use of resources in a way that is inconsistent with Agency mission; (3) violate statutory or regulatory requirements; (4) result in a significant lack of safeguards against waste, loss, unauthorized use or misappropriation of funds, property, or other assets; (5) impair the ability to obtain, maintain, report and use reliable timely information for decision making; or (6) permit improper ethical conduct or a conflict of interest.

developed to track an agency's progress in resolving the identified deficiencies. In addition, the ADS⁴ states that agency managers are responsible for taking timely and effective action to correct deficiencies identified. Furthermore, corrective action plans should be developed and tracked internally by each assessable unit. Missions are not required to report non-material weaknesses to the next level of management, i.e., the cognizant Assistant Administrator, but are still required to take timely and effective action to correct the deficiencies.

For its 1998 FMFIA review, the Mission identified eight deficiencies. All of these deficiencies were indicated as having been corrected. However, the Mission had not developed approved written corrective action plans with target dates for completing the necessary actions. Additionally, documentation evidencing corrective actions taken was not maintained at the MCRC level. Further, the Mission's MCRC had not met in the interim to review progress in correcting its 1998 FMFIA identified deficiencies. Instead, one year later, at the time of performing its 1999 FMFIA review, the Controller made a determination that all eight of its 1998 management control deficiencies had been corrected.

We attribute the lack of documentation of the Mission's corrective action process and the MCRC's weak monitoring of that process to a general desire by the Mission to keep its bureaucracy and paperwork to a minimum. Nevertheless, the lack of written approved corrective action plans with target dates, interim progress meetings, and documentation when corrective actions are completed, all at the MCRC level, makes it difficult to determine if a corrective action was actually completed, if it was completed as scheduled, and whether the MCRC—the unit charged with assuring actions are taken in a timely and effective manner—agreed to the closure of the deficiency. With a formalized tracking system by which to monitor the correction of an identified control deficiency, management would be better able to review as well as report on progress towards closure. Further, not reviewing the status of outstanding deficiencies on an interim basis, i.e., at least semi-annually, could lead to the unfortunate impression that FMFIA is only an annual exercise.

For its 1999 FMFIA review, the Mission identified two management control deficiencies. As of the completion of our audit fieldwork on January 20, 2000, the Mission had not completed the first step towards correcting those deficiencies, an MCRC-approved written corrective action plan.

Other Matters ¾ Risk Assessments Would Further Strengthen the Mission's FMFIA Process

Every Federal agency faces risks that could threaten the achievement of its objectives—and USAID is no exception. USAID as a whole, its field missions and even offices within those missions face a variety of risks from both external and internal sources. Risk assessment is the identification and analysis of possible risks to meeting objectives and forming a basis for how

⁴Chapter 596, Management Accountability and Control, Section 596.3, "Responsibility"

those risks should be managed or controlled. Primarily, risk assessment consists of managers asking themselves what positive outcomes need to occur and what negative outcomes need to be prevented in order for their operation/program to succeed. The manager would then:

- 1) identify conditions that might inhibit positive outcomes and conditions that might foster negative outcomes (identifying risks),
- 2) determine the probability and impact of those risks (determining the level of risk - generally high, medium or low), and
- 3) based on the level of risk, set in place appropriate management controls to mitigate those risks.

For example, inaccurate information in progress reports can lead to erroneous decisions. Accordingly, inaccurate reporting from USAID contractors and grantees would be a risk that could have significant ramifications (a high risk). A manager might mitigate that risk by verifying reported information during periodic site visits.

The benefits of risk assessment are two-fold. First, by conducting risk assessments, mission managers can ensure that they have established management controls that are appropriate to their unique situation (ADS Section E596.5.1a requires that cognizant managers establish appropriate controls). Second, by identifying the level of risk in operations and programs, senior mission management can focus more resources on high risk areas and less resources on low risk areas, thereby increasing efficiency and effectiveness.⁵

In addition to the arguments presented above on the benefits of performing a formal risk assessment, we believe the following specific facts regarding the Mission warrant serious consideration in favor of a risk assessment by the time of the Fiscal Year 2000 FMFIA review:

- USAID/Jordan had not performed a formal risk assessment since May 1994;
- The dollar amount of the USAID/Jordan program has significantly increased since that last assessment; and
- The Mission's organizational structure changed from a "project management" structure to a "strategic objective" structure since the assessment.

Since USAID/Washington does not require missions to conduct comprehensive risk assessments on an annual or other periodic basis, we are not making a formal recommendation

⁵The U.S. General Accounting Office (GAO), Standards for Internal Control in the Federal Government, November 1999, recognizes the benefits of risk assessment and states that management should be comprehensive in its identification of risks at both the entity-wide and activity level.

to the Mission regarding this issue.

Management Comments and Our Evaluation

In response to Recommendation No. 1, the Mission added language to Mission Order No. 6002, "Management Control Review Committee," which addresses the four parts of the recommendation. Accordingly, we consider that the Mission has taken final action on Recommendation No. 1 and the recommendation is closed.

SCOPE AND METHODOLOGY

We audited USAID/Jordan's implementation of the Federal Managers' Financial Integrity Act (FMFIA). The audit was performed in accordance with generally accepted government auditing standards and was conducted from November 29, 1999 through January 20, 2000 at USAID/Jordan.

We audited the Mission's Fiscal Year 1999 FMFIA assessment and deficiencies noted under its Fiscal Year 1998 and 1999 assessments. The purpose of the audit was not to identify all the material weaknesses not reported by the Mission; however, if any previously unreported weaknesses came to our attention during the audit, we included these in our audit report. Also, the scope of this audit did not include a detailed analysis of individual management controls to determine their effectiveness.

The audit work included reviewing the Mission's system for establishing, assessing, reporting and correcting management controls. To accomplish the audit objectives, we used the FMFIA, Office of Management and Budget Circular No. A-123, the General Accounting Office's (GAO) Standards for Internal Control in the Federal Government, USAID's Automated Directives System (ADS) Chapter 596 on Management Accountability and Control, other ADS chapters relating to Agency policies and essential procedures, and guidance for assessing the adequacy of management controls and annual instructions for reporting the status of management controls provided to missions by USAID's Bureau for Management's Office of Management Planning and Innovation.

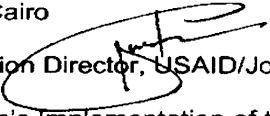
We interviewed the Mission's Management Control Official, members of the Mission's Management Control Review Committee and operating unit managers. We also reviewed available documentation on the Fiscal Year 1998 and 1999 FMFIA reviews, including the listings of management control deficiencies and management action plans for correcting those deficiencies. We reviewed the Mission's Fiscal Year 1998 and 1999 FMFIA certifications to the AA/ANE on the overall adequacy and effectiveness of management controls, noted any material weaknesses identified, and reviewed the status of any material weaknesses or deficiencies identified in the Fiscal Year 1998 review.



U.S. AGENCY FOR
INTERNATIONAL
DEVELOPMENT

OFFICE OF THE DIRECTOR

To: Darryl Burris, RIG/A/Cairo

From: Lewis W. Lucke, Mission Director, USAID/Jordan 

Subject: Audit of USAID/Jordan's Implementation of the Federal Managers' Financial Integrity Act, Report No. 6-278-00-00X-P

Recommendation No. 1 states: **We recommend that USAID/Jordan formalize its system for correcting management control deficiencies and amend its Management Control and Review Committee Mission Order to require the Committee to (a) approve written corrective action plans, (b) review the status of outstanding deficiencies at least semi-annually, (c) document all corrective actions taken, and (d) document its review and approval of final corrective actions and its closure decisions.**

Mission concurs with the recommendation. Attached is the revised Mission Order dealing with the Management Control and Review Committee. Based upon the revisions made I request that the recommendation be closed upon issuance of the report.